

GAVILAN COMMUNITY COLLEGE DISTRICT

Audit Report

ENROLLMENT FEE COLLECTION AND WAIVERS PROGRAM

Education Code Section 76300 and *California Code of Regulations*,
Title 5, sections 58501-58503, 58611-58613, 58620, and 58630

July 1, 1998, through June 30, 2008



JOHN CHIANG
California State Controller

April 2011



JOHN CHIANG
California State Controller

April 8, 2011

Laura A. Perry, Esq., President
Board of Trustee
Gavilan Community College District
5055 Santa Teresa Boulevard
Gilroy, CA 95020

Dear Ms. Perry:

The State Controller's Office audited the costs claimed by Gavilan Community College District for the legislatively mandated Enrollment Fee Collection and Waivers Program (Education Code section 76300 and California Code of Regulations, Title 5, sections 58501-58503, 58611-58613, 58620, and 58630) for the period of July 1, 1998, through June 30, 2008.

The district claimed \$3,857,220 for the mandated program. Our audit disclosed that \$90,288 is allowable and \$3,766,932 is unallowable. The costs are unallowable because the district claimed unsupported and ineligible salaries and benefits and contract services, overstated the indirect cost rates, and overstated offsetting savings/reimbursements. The State made no payment to the district. The State will pay allowable costs claimed that exceed the amount paid, totaling \$90,288, contingent upon available appropriations.

If you disagree with the audit findings, you may file an Incorrect Reduction Claim (IRC) with the Commission on State Mandates (CSM). The IRC must be filed within three years following the date that we notify you of a claim reduction. You may obtain IRC information at the CSM's Web site at www.csm.ca.gov/docs/IRCForm.pdf.

If you have any questions, please contact Jim L. Spano, Chief, Mandated Cost Audits Bureau, at (916) 323-5849.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

JVB/WM

cc: Steven M. Kinsella, D.B .A.
Superintendent/President
Joseph D. Keeler
Vice President of Administrative Services
Gavilan Community College District
Christine Atalig, Auditor
Fiscal Services Unit
California Community Colleges Chancellor's Office
Thomas Todd, Principal Program Budget Analyst
Education Systems Unit
Department of Finance
Jay Lal, Manager
Division of Accounting and Reporting
State Controller's Office

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Audit Report

Summary

The State Controller's Office (SCO) audited the costs claimed by Gavilan Community College District for the legislatively mandated Enrollment Fee Collection and Waivers Program (Education Code section 76300 and California Code of Regulations, Title 5, sections 58501-58503, 58611-58613, 58620, and 58630) for the period of July 1, 1998, through June 30, 2008.

The district claimed \$3,857,220 for the mandated program. Our audit disclosed that \$90,288 is allowable and \$3,766,932 is unallowable. The costs are unallowable because the district claimed unsupported and ineligible salaries and benefits and contract services, overstated the indirect cost rates, and overstated offsetting savings/reimbursements. The State made no payment to the district. The State will pay allowable costs claimed that exceed the amount paid, totaling \$90,288, contingent upon available appropriations.

Background

Education Code section 76300 and California Code of Regulations, Title 5, sections 58501-58503; 58611-58613; 58620; and 58630 requires community college districts to perform specific activities related to collecting enrollment fees; and granting fee waivers, Board of Governor's (BOG) Grants and financial assistance to students.

The sections were added and/or amended by:

- Chapter 1, Statutes of 1984
- Chapters 274 and 1401, Statutes of 1984
- Chapters 920 and 1454, Statutes of 1985
- Chapters 46 and 395, Statutes of 1986
- Chapter 1118, Statutes of 1987
- Chapter 136, Statutes of 1989
- Chapter 114, Statutes of 1991
- Chapter 703, Statutes of 1992
- Chapters 8, 66, 67, and 1124, Statutes of 1993
- Chapters 153 and 422, Statutes of 1994
- Chapter 308, Statutes of 1995
- Chapter 63, Statutes of 1996
- Chapter 72, Statutes of 1999

On April 24, 2003, the Commission on State Mandates (CSM) adopted the statement of decision for the Enrollment Fee Collection and Waivers Program. The CSM found that the test claim legislation constitutes a new program or higher level of service and imposes a reimbursable state-mandated program on community college districts within the meaning of Article XIII B, section 6 of the California Constitution and Government Code section 17514.

The CSM found that the following activities are reimbursable:

- Calculating and collecting the student enrollment fee for each student enrolled except for nonresidents, and except for special part-time students cited in section 76300, subdivision (f).
- Waiving student fees in accordance with the groups listed in Education Code section 76300, subdivisions (g) and (h).
- Waiving fees for students who apply for and are eligible for BOG fee waivers.
- Adopting procedures that will document all financial assistance provided on behalf of students pursuant to Chapter 9 of Title 5 of the California Code of Regulations; and including in the procedures the rules for retention of support documentation which will enable an independent determination regarding accuracy of the district's certification of need for financial assistance.

The program's parameters and guidelines establish the state mandate and define reimbursement criteria. The CSM adopted the parameters and guidelines on January 26, 2006. In compliance with Government Code section 17558, SCO issues claiming instructions to assist local agencies and school districts in claiming mandated program reimbursable costs.

Objective, Scope, and Methodology

We conducted the audit to determine whether costs claimed represent increased costs resulting from the Enrollment Fee Collection and Waivers Program for the period of July 1, 1998, through June 30, 2008.

Our audit scope included, but was not limited to, determining whether costs claimed were supported by appropriate source documents, were not funded by another source, and were not unreasonable and/or excessive.

We conducted this performance audit under the authority of Government Code sections 12410, 17558.5, and 17561. We did not audit the district's financial statements. Except for the issue noted below, we conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We were unable to assess fraud risk because the district, based on its consultant's advice, did not respond to our inquiries regarding fraud assessment. We increased our substantive testing; however, increased testing would not necessarily identify a fraud or abuse that may have occurred.

We limited our review of the district's internal controls to gaining an understanding of the transaction flow and claim preparation process as necessary to develop appropriate auditing procedures.

We asked the district to submit a written representation letter regarding the district's accounting procedures, financial records, and mandated cost claiming procedures as recommended by generally accepted government auditing standards. However, the district declined our request and did not submit a representation letter.

Conclusion

Our audit disclosed instances of noncompliance with the requirements outlined above. These instances are described in the accompanying Summary of Program Costs (Schedule 1) and in the Findings and Recommendations section of this report.

For the audit period, Gavilan Community College District claimed \$3,857,220 for costs of the Enrollment Fee Collection and Waivers Program. Our audit disclosed that \$90,288 is allowable and \$3,766,932 is unallowable.

The State made no payment to the district. The State will pay allowable costs claimed that exceed the amount paid, totaling \$71,974, contingent upon available appropriations.

Views of Responsible Officials

We issued a draft audit report on March 11, 2011. Joseph K. Keeler, Vice President of Administrative Services responded by letter dated March 24, 2011 (Attached) disagreeing with the audit results. The final audit report includes the district's response.

Restricted Use

This report is solely for the information and use of Gavilan Community College District, the California Community Colleges Chancellor's Office, the California Department of Finance, and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

April 8, 2011

Schedule 1— Summary of Program Costs July 1, 1998, through June 30, 2008

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 1998, through June 30, 1999</u>				
Direct costs:				
Salaries and benefits	\$ 214,360	\$ 8,503	\$ (205,857)	Findings 1, 2
Total direct costs	214,360	8,503	(205,857)	
Indirect costs	76,483	1,575	(74,908)	Finding 4
Total direct and indirect costs	290,843	10,078	(280,765)	
Less offsetting reimbursements:				
Enrollment fee collection	(5,803)	(10,078)	(4,275)	Finding 5
Total program costs	<u>\$ 285,040</u>	<u>—</u>	<u>\$ (285,040)</u>	
Less amount paid by the State		<u>—</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ —</u>		
<u>July 1, 1999, through June 30, 2000</u>				
Direct costs:				
Salaries and benefits	\$ 250,594	\$ 11,880	\$ (238,714)	Findings 1, 2
Total direct costs	250,594	11,880	(238,714)	
Indirect costs	85,778	1,675	(84,103)	Finding 4
Total direct and indirect costs	336,372	13,555	(322,817)	
Less offsetting reimbursements:				
Enrollment fee collection	(5,448)	(591)	4,857	Finding 5
Enrollment fee waivers	(11,361)	(12,964)	(1,603)	Finding 5
Total program costs	<u>\$ 319,563</u>	<u>—</u>	<u>\$ (319,563)</u>	
Less amount paid by the State		<u>—</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ —</u>		
<u>July 1, 2000, through June 30, 2001</u>				
Direct costs:				
Salaries and benefits	\$ 329,358	\$ 12,445	\$ (316,913)	Findings 1, 2
Total direct costs	329,358	12,445	(316,913)	
Indirect costs	120,380	1,944	(118,436)	Finding 4
Total direct and indirect costs	449,738	14,389	(435,349)	
Less offsetting reimbursements:				
Enrollment fee collection	(5,194)	(718)	4,476	Finding 5
Enrollment fee waivers	(12,001)	(13,671)	(1,670)	Finding 5
Total program costs	<u>\$ 432,543</u>	<u>—</u>	<u>\$ (432,543)</u>	
Less amount paid by the State		<u>—</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ —</u>		

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2001, through June 30, 2002</u>				
Direct costs:				
Salaries and benefits	\$ 313,425	\$ 14,379	\$ (299,046)	Findings 1, 2
Total direct costs	313,425	14,379	(299,046)	
Indirect costs	112,394	2,350	(110,044)	Finding 4
Total direct and indirect costs	425,819	16,729	(409,090)	
Less offsetting reimbursements:				
Enrollment fee collection	(5,036)	(920)	4,116	Finding 5
Enrollment fee waivers	(13,766)	(15,809)	(2,043)	Finding 5
Total program costs	\$ 407,017	—	\$ (407,017)	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		\$ —		
<u>July 1, 2002, through June 30, 2003</u>				
Direct costs:				
Salaries and benefits	\$ 332,386	\$ 21,644	\$ (310,742)	Findings 1, 2
Total direct costs	332,386	21,644	(310,742)	
Indirect costs	109,289	3,138	(106,151)	Finding 4
Total direct and indirect costs	441,675	24,782	(416,893)	
Less offsetting reimbursements:				
Enrollment fee collection	(4,604)	(1,594)	3,010	Finding 5
Enrollment fee waivers	(20,492)	(23,188)	(2,696)	Finding 5
Total program costs	\$ 416,579	—	\$ (416,579)	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		\$ —		
<u>July 1, 2003, through June 30, 2004</u>				
Direct costs:				
Salaries and benefits	\$ 327,425	\$ 21,660	\$ (305,765)	Findings 1, 2
Contracted services	1,231	1,231	—	
Total direct costs	328,656	22,891	(305,765)	
Indirect costs	118,822	3,376	(115,446)	Finding 4
Total direct and indirect costs	447,478	26,267	(421,211)	
Less offsetting reimbursements:				
Enrollment fee collection	(13,194)	(2,105)	11,089	Finding 5
Enrollment fee waivers	(21,318)	(24,162)	(2,844)	Finding 5
Total program costs	\$ 412,966	—	\$ (412,966)	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		\$ —		

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2004, through June 30, 2005</u>				
Direct costs:				
Salaries and benefits	\$ 345,500	\$ 18,850	\$ (326,650)	Findings 1, 2
Contracted services	666	666	—	
Total direct costs	346,166	19,516	(326,650)	
Indirect costs	117,332	6,173	(111,159)	Finding 4
Total direct and indirect costs	463,498	25,689	(437,809)	
Less offsetting reimbursements:				
Enrollment fee collection	(19,536)	(4,163)	15,373	Finding 5
Enrollment fee waivers	(16,457)	(21,526)	(5,069)	Finding 5
Total program costs	<u>\$ 427,505</u>	—	<u>\$ (427,505)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ —</u>		
<u>July 1, 2005, through June 30, 2006</u>				
Direct costs:				
Salaries and benefits	\$ 356,976	\$ 21,458	\$ (335,518)	Findings 1, 2
Total direct costs	356,976	21,458	(335,518)	
Indirect costs	131,795	7,223	(124,572)	Finding 4
Total direct and indirect costs	488,771	28,681	(460,090)	
Less offsetting reimbursements:				
Enrollment fee collection	(18,570)	(3,037)	15,533	Finding 5
Enrollment fee waivers	(19,472)	(25,644)	(6,172)	Finding 5
Total program costs	<u>\$ 450,729</u>	—	<u>\$ (450,729)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ —</u>		
<u>July 1, 2006, through June 30, 2007</u>				
Direct costs:				
Salaries and benefits	\$ 195,166	\$ 67,546	\$ (127,620)	Findings 1, 2
Total direct costs	195,166	67,546	(127,620)	
Indirect costs	71,138	22,743	(48,395)	Finding 4
Total direct and indirect costs	266,304	90,289	(176,015)	
Less offsetting reimbursements:				
Enrollment fee collection	(24,561)	(438)	24,123	Finding 5
Enrollment fee waivers	(69,473)	(65,170)	4,303	Finding 5
Total program costs	<u>\$ 172,270</u>	24,681	<u>\$ (147,589)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 24,681</u>		

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2007, through June 30, 2008</u>				
Direct costs:				
Salaries and benefits	\$ 374,267	\$ 91,555	\$ (282,712)	Findings 1, 2
Contracted services	91,273	18,262	(73,011)	Finding 3
Total direct costs	465,540	109,817	(355,723)	
Indirect costs	148,023	38,535	(109,488)	Finding 4
Total direct and indirect costs	613,563	148,352	(465,211)	
Less offsetting reimbursements:				
Enrollment fee collection	(18,738)	(22,186)	(3,448)	Finding 5
Enrollment fee waivers	(61,817)	(60,559)	1,258	Finding 5
Total program costs	<u>\$ 533,008</u>	65,607	<u>\$ (467,401)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 65,607</u>		
<u>Summary: July 1, 1998 through June 30, 2008</u>				
Direct costs:				
Salaries and benefits	\$ 3,039,457	\$ 289,920	\$ (2,749,537)	
Contracted services	93,170	20,159	(73,011)	
Total direct costs	3,132,627	310,079	(2,822,548)	
Indirect costs	1,091,434	88,732	(1,002,702)	
Total direct and indirect costs	4,224,061	398,811	(3,825,250)	
Less offsetting reimbursements:				
Enrollment fee collection	(120,684)	(45,830)	74,854	
Enrollment fee waivers	(246,157)	(262,693)	(16,536)	
Total program costs	<u>\$ 3,857,220</u>	90,288	<u>\$ (3,766,932)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 90,288</u>		

¹ See the Findings and Recommendations section.

Findings and Recommendations

FINDING 1— Overstated salaries and benefits

The district claimed unallowable salaries and benefits of \$652,279. The costs are unallowable because the district did not provide documentation supporting some of its costs, totaling \$116,550, and made errors when applying time allowances totaling \$535,729.

Unsupported Costs

The district did not provide documentation supporting hours it claimed for one-time activities. The unsupported costs total \$116,550—\$115,505 related to enrollment fee collection and \$1,045 related to enrollment fee waivers.

The unsupported costs related to the following activities claimed:

	Enrollment Fee Collection	Enrollment Fee Waivers	Total
One-time activities:			
Prepare district policies and procedures	\$ (42,342)	\$ (1,045)	\$ (43,387)
Staff training (one-time per employee)	(73,163)	—	(73,163)
Total	<u>\$ (115,505)</u>	<u>\$ (1,045)</u>	<u>\$ (116,550)</u>

For the one-time activity of preparing district policies and procedures, we allowed costs in the first fiscal year they were claimed totaling \$7,263 for fiscal year (FY) 1998-99 enrollment fee collection costs and \$173 for FY 1999-2000 enrollment fee waivers costs. For the remaining years (FY 1999-2000 through FY 2005-06 for enrollment fee collection costs and FY 2000-01 through FY 2005-06 for enrollment fee waivers costs), the district did not provide support for such costs.

For the one-time activity of staff training (one time per employee), we allowed costs in the first year employees were claimed totaling \$681 for FY 1998-99 and \$568 for FY 2002-03 for enrollment fee collection costs. We allowed all enrollment fee waivers staff training costs totaling \$42. For FY 1999-2000 through FY 2005-06, we determined that \$9,488 in enrollment fee collection costs were unallowable because the employees had been claimed previously. The district provided no documentation related to the nature of the training. For FY 2006-07, the district claimed no training costs. For FY 2007-08 we determined, based on documentation the district provided, that \$63,675 of \$82,358 claimed for enrollment fee collection costs were unallowable. Most of the costs related to non-mandated activities. We provided the district with a copy of our analysis and requested comments; the district did not respond.

Errors in Application of Time Allowances for Ongoing Activities

The district claimed salaries and benefits for 12 activities using time allowances developed from estimated time it took staff to complete various activities. On survey forms developed by the district's mandate consultant, employees estimated, for each fiscal year, the average time in minutes it took them to perform the 12 activities per student per year. In

applying the time allowances, the district did not report the correct number of students related to the various cost components. We recalculated reimbursable activities using the correct number of students and determined that the district overstated salaries and benefits by \$535,729—overstated enrollment fee collection costs totaling \$544,326 and understated enrollment fee waivers costs totaling \$8,597.

Enrollment Fee Collection

For enrollment fee collection costs, the district claimed costs related to: (1) referencing student accounts and printing a list of enrolled courses; (2) calculating the fees, processing the payment, and preparing a payment receipt; (3) answering student questions or referring them to the appropriate person for an answer; (4) updating student records for the enrollment fee information, providing a copy to the student, and copying/filing enrollment fee documentation; (5) collecting delinquent fees; and (6) processing fee refunds for students who establish fee waiver eligibility and updating student and district records as required. The district determined reimbursable costs by applying a multiplier to the time allowances it determined through a time study.

For activities (1) and (3), the district used total enrolled students as the multiplier. For activities (2) and (4), the district used students paying the enrollment fee as the multiplier. The district did not support the numbers it used for the multiplier. We updated the district's calculation based on student enrollment information it reported to the California Community Colleges Chancellor's Office (CCCCO). Based on updated student enrollment information, we determined that of the \$2,508,095 claimed, \$410,837 was overstated because of calculation errors for activities (1) through (4). The remaining costs totaled \$2,097,258. The calculation errors occurred for the following reasons:

- For activities (1) and (3), the district claimed costs for reimbursable student enrollment numbers that did not agree with the enrollment numbers documented by the CCCCCO. Reimbursable student enrollment excludes non-resident and special part-time students (students who attend a community college while in high school pursuant to Education Code section 76001). We obtained student enrollment, non-resident student, and special part-time student numbers from the CCCCCO. The CCCCCO's management information system (MIS) identifies enrollment information based on student data that the district reported. CCCCCO identifies the district's enrollment based on CCCCCO's MIS data element STD 7, codes A through G. CCCCCO eliminates any duplicate students based on their Social Security numbers.
- For activities (2) and (4), the district did not provide support for its calculation of the total number of students paying the fee. We calculated reimbursable students paying the fees by deducting Board of Governor Grant (BOGG) recipients from reimbursable student enrollments. In calculating enrollment fee waivers (for components 7 through 10 below), the district used the BOGG numbers reported on the CCCCCO's Web site. We used that number when calculating the number of BOGG recipients. However, the more accurate numbers of

BOGG recipients are the numbers maintained by the CCCCCO based on data the district reported. The CCCCCO identifies the number of BOGG recipients based on MIS data element SF21 and all codes with the first letter of B or F. The BOGG recipient numbers provided by the CCCCCO did not vary significantly from the numbers reported on its Web site. The annual number of BOGG recipients confirmed directly with the CCCCCO totaled 23,716 while the number of BOGG recipients reported on the CCCCCO's Web site totaled 23,964, a difference of 248.

For activity (5), the district claimed delinquent fee collection costs based on the number of delinquent dollars rather than the number of delinquent students for FY 1998-99 through FY 2003-04, FY 2005-06, and FY 2006-07. Based on updated student count, the district overstated costs by \$133,489.

For activity (6), the district claimed costs based on the number of students who received a refund. We identified no errors for this activity.

We recalculated reimbursable on-going enrollment fee collection costs for activities (1) through (6) and determined that the district overstated allowable costs by \$544,326.

Enrollment Fee Waivers

For enrollment fee waivers costs, the district claimed costs related to: (7) answering student questions or referring them to the appropriate person for an answer; (8) receiving waiver applications; (9) evaluating waiver applications; (10) providing notice to student that additional documents were needed; (11) inputting approved applications; and (12) reviewing and evaluating additional information and documentation for denied application if appealed and providing students written notifications of the appeal results or any change in eligibility status.

For activities (7) through (9), and (11), the district used the number of BOGG waivers reported on the CCCCCO's Web site for FY 1999-2000 through FY 2004-05, and FY 2007-08. The numbers used by the district for FY 2005-06 and FY 2006-07 did not agree with the numbers reported on the CCCCCO's Web site and excluded denied appeals. Also, the district made computation errors when calculating the FY 2007-08 amounts. For components (10) and (12), the district used the number of denied appeals for FY 2005-06 and FY 2006-07. We did not adjust the numbers used by the district for components (10) and (12).

We recalculated reimbursable ongoing enrollment fee waivers costs for components (7) through (9), and (11), and determined that the district understated allowable costs by \$8,597.

The following table summarizes the unallowable salaries and benefits for ongoing enrollment fee collection and waivers costs:

Fiscal Year	Allowable Salaries and Benefits	Claimed Salaries and Benefits	Audit Adjustment
1998-99	\$ 172,092	\$ 214,360	\$ (42,268)
1999-2000	189,742	250,594	(60,852)
2000-01	257,585	329,358	(71,773)
2001-02	243,484	326,983	(83,499)
2002-03	255,099	332,386	(77,287)
2003-04	234,298	327,425	(93,127)
2004-05	263,145	345,500	(82,355)
2005-06	276,387	356,597	(80,210)
2006-07	170,559	184,943	(14,384)
2007-08	324,302	370,826	(46,524)
Total	<u>\$ 2,386,693</u>	<u>\$ 3,038,972</u>	<u>\$ (652,279)</u>

The following table details the unallowable salaries and benefits by unsupported costs and errors in the district's application of time study for ongoing activities:

Fiscal Year	Unsupported Costs			Errors in Application of Time Study			Audit Adjust- ment
	Enroll- ment Fee Collection	Enroll- ment Fee Waivers	Subtotal	Enroll- ment Fee Collection	Enroll- ment Fee Waivers	Subtotal	
1998-99	\$ —	\$ —	\$ —	\$ (42,268)	\$ —	\$ (42,268)	\$ (42,268)
1999-2000	(8,985)	—	(8,985)	(51,867)	—	(51,867)	(60,852)
2000-01	(7,333)	(177)	(7,510)	(64,263)	—	(64,263)	(71,773)
2001-02	(7,545)	(178)	(7,723)	(75,776)	—	(75,776)	(83,499)
2002-03	(9,379)	(240)	(9,619)	(67,668)	—	(67,668)	(77,287)
2003-04	(13,426)	(261)	(13,687)	(79,440)	—	(79,440)	(93,127)
2004-05	(2,257)	(105)	(2,362)	(79,993)	—	(79,993)	(82,355)
2005-06	(2,905)	(84)	(2,989)	(77,018)	(203)	(77,221)	(80,210)
2006-07	—	—	—	(12,129)	(2,255)	(14,384)	(14,384)
2007-08	(63,675)	—	(63,675)	6,096	11,055	17,151	(46,524)
Total	<u>\$(115,505)</u>	<u>\$ (1,045)</u>	<u>\$(116,550)</u>	<u>\$(544,326)</u>	<u>\$ 8,597</u>	<u>\$(535,729)</u>	<u>\$(652,279)</u>

Education Code section 76300 authorizes community college districts to calculate and collect student enrollment fees and to waive student fees in certain instances. The code directs districts to report the number of, and amounts provided for, BOGGs and to adopt procedures that will document all financial assistance provided on behalf of students.

The program's parameters and guidelines (section IV—Reimbursable Activities) state "... actual costs must be traceable and supported by source documents that show the validity of such costs, when they were incurred, and their relationship to the reimbursable activities. A source document is a document created at or near the same time the actual cost was incurred for the event or activity in question."

The parameters and guidelines also state that salaries and benefits are reimbursable if claimants report each employee implementing the reimbursable activities by name, job classification, productive hourly rate, and provide a description of the specific reimbursable activities performed and the hours devoted to these activities.

The parameters and guidelines state that the preparation of policies and procedure is reimbursable as a one-time activity for collection of enrollment fees and for determining which students are eligible for waiver of the enrollment fees. The CSM Final Staff Analysis and Proposed Parameters and Guidelines dated January 13, 2006, for the one-time activity of adopting policies and procedures, states “. . . staff finds that updates to the policies and procedures would be subject to change in the community college district’s policy rather than state law, and would not be reimbursable.”

The parameters and guidelines also states that staff training is reimbursable as a one-time costs per employee for training district staff that implement the program on the procedures for the collection of enrollment fees and for determining which students are eligible for waiver of the enrollment fee. Consistent with the Final Staff Analysis for policies and procedures, training for changes in the community college district’s policy is not reimbursable.

Recommendation

We recommend that the district maintain records that document actual time spent on mandate-related activities. In addition, we recommend that the district maintain documentation that identifies the number of students excluded as required by Education Code section 76300.

District’s Response

The draft audit report states that the District claimed unallowable salaries and benefits in the amount of \$652,764. This amount consists of \$119,991 of “unsupported costs” and \$532,773 for “errors applying time allowances.”

1. Policies and Procedures and Training

A total of \$116,550 was disallowed for staff time claimed for policies and procedures and staff training. The draft audit report disallowed most of the staff time reported for four reasons, all of which are characterized there as “unsupported costs.” None of the staff time was disallowed as unreasonable.

The draft audit report states variously that the District did not provide “support” for claimed costs, or provided “no documentation”. The general audit standard applied was contemporaneous documentation of time spent or corroborating evidence of activities performed. It should be remembered that the parameters and guidelines were adopted January 26, 2006, and the first claiming instructions for the initial fiscal years were released thereafter. Claimants had no actual notice of approved reimbursement for this program until that time. It seems unreasonable to require contemporaneous documentation of daily staff time for the retroactive initial fiscal years. While some historic staff time can be reconstructed from calendars and desk diaries, other staff time cannot and must be reported as good-faith estimate where the desired information is not maintained in the regular course of business. While the District agrees with the audit report recommendation that claimants maintain records that document actual time spent on mandate-related activities, it would be a more realistic standard only for fiscal years several years after the period of the initial fiscal year claims.

Where the documentation is apparently sufficient, the auditor made qualitative judgments regarding the scope of activities as to whether they were related to the mandate program, for example, as in the Banner mock registration process. The District does not agree that those sessions and other training events are qualitatively divisible as determined by the auditor. Since this is a basic difference of opinion, it has to be resolved by the incorrect reduction claim process.

The audit report essentially disallows staff time for policies and procedures after the first instances of reported costs for these activities in FY 1998-99 and FY 1999-00 as a duplication of one-time costs. The audit report cites the Commission Final Staff Analysis for the parameters and guidelines for the premise, not stated in the parameters and guidelines, that updates to policies and procedures result from changes in local policy. This is a factual assumption not supported by the audit findings, and seemingly contrary to the thirteen changes in state law listed in the audit report. The audit report makes no findings on the content of the changes made to policies and procedures to support this adjustment.

The draft audit report disallows claimed training time for employees who were claimed more than once during the ten fiscal years in the audit period. The parameters and guidelines identify the staff training activities as “one-time per employee.” However, it should be considered that the content of the training would change over the span of years, thus new content would be a new one-time activity for repeat staff members. The language of Education Code Section 76300 changed frequently and the subject matter of the relevant Title 5, CCR, sections may have been updated by the Board of Governors. There are also local changes in duties and procedures as a result of the change in the enrollment and registration process; for example, the evolving telephone and OLGA system noted in the audit report. It should also be anticipated that the name of the supervisors or managers conducting the training would appear in the claims for several years. There should be no blanket allowance of the staff time for persons whose name appears more than once without a determination of whether the subject matter of the training was duplicate of previously claimed training activities.

2. Time Allowances for Ongoing Activities

The draft audit report identifies “errors when applying time allowances” of \$530,768 in overstated ongoing enrollment fee collection activities and understated costs of \$2,005 for ongoing enrollment fee waiver activities. The District’s computation of ongoing program costs is based on the average time reported from the several surveys of relevant program of the staff of the amount of time (usually in minutes) required to complete the twelve activity components. These average times were multiplied by workload multipliers that closely approximate the number of students who paid enrollment fees and the number of students for whom enrollment fees were waived. The total hours per activity component was multiplied by either the specific productive hourly rate of the person performing the activity, or an average hourly rate when there were several persons in similar job classifications performing the activity.

The major source of the audited variance (\$397,279) is stated in the audit report to be that the District “did not report the correct number of students related to the various cost components,” and that the District “did not support the numbers it used for the multiplier.” The auditor utilized enrollment waiver statistics from the Chancellor’s Office MIS system, because these numbers are “maintained,” are “more accurate,” and because the numbers “did not vary significantly from the numbers reported on its Web site” that was the source of some of the numbers used by the District. The audit uses the MIS statistics to approximate the number of students who paid enrollment fees and the number of students for whom enrollment fees were waived. The District utilized information available from district records or the Chancellor’s web site at the time the annual claims were prepared so some variances can be expected. Variances would result from the students who enrolled and paid enrollment fees, but thereafter left the district and thus these students may not appear later in the Chancellor’s statistics as an enrolled student. Another source of a variance would be the time spent on unapproved waiver applications. There are more applications for waivers than waivers granted, which is not reflected by the Chancellor’s statistics.

SCO’s Comment

We reduced the adjustment reported in the draft report by \$485, from \$652,764 to \$652,279. We increased allowable FY 2007-08 one-time training costs related to fee collection (decreasing the adjustment by \$3,441). We also corrected the FY 2001-02 enrollment count of students who paid an enrollment fee (increasing the adjustment by \$13,558) and FY 2005-06 and FY 2006-07 denied appeal counts related to fee waivers (reducing the adjustment by \$10,602). The FY 2001-02 adjustment is offset in Finding 2.

Policies and Procedures and Training

The district stated that the SCO disallowed claimed costs of \$116,550 for policies and procedures and staff training because the costs were unsupported. Instead, the costs were determined to be unallowable because the district did not support that the costs only related to one-time activities allowed by the parameters and guidelines.

For policies and procedures costs, we allowed costs in the first year claimed. The district did not provide any documentation supporting that the costs claimed in the remaining years related to the allowable one-time costs of developing rather than updating the procedures.

For staff training, we allowed costs in the first year employees were claimed. The district provided no documentation supporting the training, e.g., the name of the trainer, the nature of the training, agenda. Therefore, the district did not support that costs claimed by an employee in subsequent years related to allowable one-time training.

The parameters and guidelines state that the preparation of policies and procedures and staff training are reimbursable as a one-time activity [emphasis added] for the collection of enrollment fees and for

determining which students are eligible for waiver of the enrollment fees. Further, the parameters and guidelines limit staff training to one-time cost per employee [emphasis added].

The district further asserts that the SCO draft audit report cites the CSM's Final Staff Analysis as support for a premise not stated in the parameters and guidelines. The analysis is not the sole support for the SCO's position, but is relied upon in conjunction with the parameters and guidelines. It clarifies the CSM's position on one-time activities by stating, "updates to the policies and procedures would be subject to change in the community college district's policy rather than state law, and would not be reimbursable."

The district also contends that Education Code section 76300 changed frequently and the subject matter of Title 5, CCR, sections may have been updated. The district did not provide any support that the added training costs related to changes in the law.

Time Allowances for Ongoing Activities

The district notes that SCO audit adjustments of \$397,279 [updated to \$410,837 in this final report] relate to the district reporting the incorrect number of students used to compute reimbursable costs.

The district states that the SCO utilized enrollment waiver statistics from the CCCCCO because they were more accurate and did not vary significantly from the district. This statement is inaccurate. With minor exception, we used the districts' reported waiver statistic as those numbers did not vary significantly from the numbers confirmed from the CCCCCO. The waivers statistics confirmed from the CCCCCO represents data the district reported and is more accurate because it includes unduplicated count of students with BOGG waivers by term for MIS data element SF 21 and all student financial aid data codes with the first letter of B or F. The district's waivers numbers came from datamart data from the CCCCCO's Web site that included unduplicated count of students with BOGG waivers by school year and excludes codes with the first letter of F. Consequently, a student with a BOGG waiver in three terms in a school year would be counted as one BOGG waiver on the CCCCCO's Web site and three BOGG waivers on the numbers confirmed by the CCCCCO. Furthermore, the CCCCCO's Web site would not include any of the data element SF21 codes with the first letter of F.

The district states that the SCO relied upon statistics from the CCCCCO to approximate the number of students who paid enrollment fees and the number of students for whom enrollment fees were waived. It further states that the district used statistics from the district. The information from the CCCCCO is based on information the district reported. Further, the CCCCCO's enrollment numbers detail non-resident students and special admit students that are not reimbursable under the mandate. The numbers provided by the district did not agree with the CCCCCO's numbers and were not traceable to the district's records.

**FINDING 2—
Unsupported salaries
and benefits**

The district claimed unsupported salaries and benefits related to ongoing activities of calculating and collecting enrollment fees, activities (1) through (4). The unsupported salaries and benefits for these four activities, after adjusting the errors identified in Finding 1, total \$2,097,258.

From July 1998 through June 2003, students paid registration either over the telephone, assisted by a staff member, or over the counter. In July 2003, the telephone registration process was expanded to include an automated system. In May 2006, the district launched the OnLine Gavilan (OLGA) system, an automated online registration and payment system. The OLGA system allowed students to register via the Internet and pay fees with a credit card. When students used the automated system, district staff did not perform such reimbursable mandated activities as referencing student accounts, calculating and collecting student fees, and updating computer records for the enrollment fee information and providing a copy to the student. The district claimed reimbursement for enrollment fee collections based on all students paying fees and did not identify or exclude those students who enrolled and paid online.

As noted in Finding 1, employees estimated, for each year, the average time it took to perform individual activities per student per year. The surveys were completed in April 2006 for FY 1998-99 through FY 2004-05; in May 2006 for FY 2005-06; in November 2007 for FY 2006-07; and between January 30, 2009, and February 3, 2009, for FY 2007-08. The district's main campus is in Gilroy; however, the district also has campus sites in Hollister and Morgan Hill. The majority of the enrollment fees were collected at Gilroy's main campus. Gilroy's Business Office and Admissions and Records employees completed the April 2006, May 2006, and November 2007 surveys that the district used to claim costs for FY 1998-99 through FY 2006-07. Gilroy's and Morgan Hill's employees completed the January/February 2009 survey that was used to claim costs for FY 2007-08. Hollister employees did not participate in any of the surveys.

The following table shows the number of completed surveys by campuses and offices:

Fiscal Year	Gilroy's Admissions and Records	Gilroy's Business Services	Morgan Hill's Student Services	Total
1998-99	4	1	0	5
1999-2000	4	1	0	5
2000-01	4	1	0	5
2001-02	5	2	0	7
2002-03	5	2	0	7
2003-04	5	2	0	7
2004-05	5	2	0	7
2005-06	5	1	0	6
2006-07	0	2	0	2
2007-08	5	0	2	7

The survey form provided a brief summary of activities (1) through (4) from the description identified in the parameters and guidelines; no further instructions were provided. In addition, the district's mandate consultant indicated that no clarification was provided to employees as to the context of reimbursable activities and no post-survey analysis was performed to verify the reasonableness of the average time recorded in the surveys. The consultant simply added up all of the time increments recorded on the survey forms and divided the total by the number of responses without verifying the time recorded on the survey forms. All responses were given equal weight, even though the Admissions and Records employees, Business Office employees, and Student Services employees did not perform the mandated activities at the same level.

District staff claimed 44.4 minutes for FY 1998-99, 45.4 minutes for both FY 1999-2000 and FY 2000-01, 44.2 minutes for FY 2001-02, 41.4 minutes annually for FY 2002-03 through FY 2005-06, 14.5 minutes for FY 2006-07, and 31.3 minutes for FY 2007-08 per student, per summer session as well as the fall and spring terms, to perform mandated activities (1) through (4). As noted in Finding 1, a description of the reimbursable activities is as follows: (1) referencing student accounts and printing a list of enrolled courses; (2) calculating the fees, processing the payment, and preparing a payment receipt; (3) answering student questions or referring them to the appropriate person for an answer; and (4) updating student records for the enrollment fee information, providing a copy to the student, and copying/filing enrollment fee documentation.

Admissions and Records Office Employees, Gilroy's Main Campus

Seven Student Records Technicians working at Gilroy's Admissions and Records Office completed survey forms at various times for FY 1998-99 through FY 2005-06, and for FY 2007-08, that estimated the time it took to perform activities (1) through (4). We interviewed two of these employees on March 29, 2010. The Administrative Assistant for the Vice President of Administrative Services was present during the interviews. We discussed the reimbursable activities described in the parameters and guidelines and indicated that reimbursable activities exclude costs related to adding and dropping classes, ordering transcripts, time spent paying for a parking permit, and other fee collections. The two Student Records Technicians walked us through the enrollment fee collection process and informed us that it generally took approximately two to three minutes per student, per summer session as well as the fall and spring terms, to perform activities (1) through (4). However, the seven employees estimated the following time on their survey forms to collectively perform activities (1) through (4):

- The two employees interviewed indicated that it took 40 minutes each year from FY 1998-99 through FY 2005-06, and 46 minutes and 57 minutes for FY 2007-08.
- The third employee (currently retired) indicated that it took 40 minutes each year from FY 1998-99 through FY 2005-06, and 23 minutes for FY 2007-08.

- The fourth employee indicated that it took 40 minutes each year from FY 2001-02 through FY 2005-06.
- The fifth employee (currently retired) indicated that it took 80 minutes each year from FY 1998-99 through FY 2002-03.
- The sixth employee indicated that it took 80 minutes each year from FY 2003-04 through FY 2005-06, and 23 minutes for FY 2007-08.
- The seventh employee indicated that it took 40 minutes for FY 2007-08.

The two interviewed employees informed us that they were not aware that the time they recorded on the survey forms should have excluded registration-related activities (e.g., adding and deleting classes, non-mandated fee collection activities, and collection of other fees). One of the interviewed employees informed us that none of the staff at Gilroy's Admissions and Records Office completed a survey form for FY 2006-07 because they did not have time to fill out the survey forms for that year. However, most of the enrollment fees were collected at Gilroy's Admissions and Records Office for FY 2006-07. The minutes recorded on the survey forms by Admissions and Records employees averaged between 48 and 50 minutes for FY 1998-99 through FY 2005-06, and 37.8 minutes for FY 2007-08.

One of the Student Records Technicians interviewed and the Administrative Assistant stated that the time allowances recorded on the survey forms appear to be overstated, as the time allowances included time spent on non-mandated activities. The two interviewed employees agreed to reevaluate the time they claimed for calculating and collecting enrollment fees and let the SCO know the results.

We also physically observed the fee collection process for approximately three hours on January 26, and 27, 2011, during the open enrollment period at the Gilroy campus. The purpose of our observation was to validate the reasonableness of time allowances used by the district in determining reimbursable salaries and benefits. The Administrative Assistant was present during most of our observations. We observed seven students as they paid their fees. We excluded students who were adding and dropping classes and ordering transcripts, as well as time spent paying for a parking permit. Based on our observation, the time per student averaged three and one half minutes. The Administrative Assistant indicated that, based on her observation, staff spent approximately five minutes per student on the enrollment fee collection process, activities (1) through (4). She indicated that, due to automation, the time spent to calculate enrollment fees in the current year was not as time-consuming as the work performed in earlier years. She also indicated that there were minor time variances to consider in the amount of time it took to complete these tasks based on the experience level of the employee performing the work. The district did not provide any further support for the minutes claimed or increased time involved in prior years for the fee collection process.

Based on responses from the district's Admissions and Records employees and our observations of staff performing the mandated activities, the average minutes used in claiming salaries and benefits for its mandated cost claims are significantly overstated. Time claimed averaged 48 to 50 minutes for FY 1998-99 through FY 2005-06 and 37.8 minutes for FY 2007-08 compared to approximately two to three and one half minutes based on our interviews and observations.

Business Office Employees, Gilroy's Main Campus

An Accounting Assistant and an Accountant working at Gilroy's Business Office completed survey forms at various times, from FY 1998-99 through FY 2006-07, that estimated the amount of time spent to collectively perform activities (1) through (4). We interviewed the Accounting Assistant. The Administrative Assistant was also present for this interview. We discussed the reimbursable activities described in the parameters and guidelines and indicated that reimbursable activities exclude costs related to adding and dropping classes, ordering transcripts, time spent paying for a parking permit, and other fee collections. The Accounting Assistant reviewed the time recorded on her survey forms and stated that, to the best of her knowledge, the 12 minutes per student was accurate. The Accounting Assistant indicated that she had not been involved in the enrollment fee collection process since 2007; therefore, she was unable to walk us through the collection process. On the survey forms, she estimated that it took 12 minutes for each year from FY 1998-99 through FY 2005-06 and 17 minutes for FY 2006-07 per student, per summer session as well as the fall and spring terms, to perform activities (1) through (4). She recalls that prior to implementation of the OLGA system (in May 2006), most students would register over the telephone and pay their enrollment fees within ten days at the Business Office. She indicated that subsequent to the implementation of the OLGA, system, students had to pay when they registered via the telephone system. She also informed us that the Business Office did not handle any registration activities, but did handle health fee collections and parking fees. In addition, she informed us that only one employee performed activities (1) through (4) in the Admission and Records Office and that these activities consumed only a portion of that employee's time.

The Accountant estimated on the survey forms that it took 12 minutes each year from FY 2002-03 through FY 2006-07 to collectively perform activities (1) through (4).

As noted previously, only two surveys were completed for FY 2006-07; both of them were from Gilroy's Business Office employees. However, Gilroy's Admissions and Records employees collected most of the enrollment fees for FY 2006-07.

Student Services Employees, Morgan Hill Campus

A Director of Programs Specialist and a Program Specialist in the Student Services Office at the Morgan Hill campus completed a survey form for FY 2007-08 that estimated time it took to collectively perform activities (1) through (4). The Director and Program Specialist survey

forms indicated that it took 15 minutes each per student per summer session as well as the fall and spring terms to collectively perform activities (1) through (4).

Adjustment

We discussed our analysis of time claimed with district representatives and requested their comments. District staff initially concurred with our analysis related to time claimed being overstated and agreed to revise its time allowances. Subsequently, the district's consultant, on behalf of the district, requested that we issue the draft report.

Based on our analysis, we determined that salaries and benefits claimed for activities (1) through (4), using time allowances that averaged 43.1 minutes annually per student for FY 1998-99 through FY 2005-06, 14.5 minutes annually per student for FY 2006-07, and 31.3 minutes per student for FY 2007-08, were unsupported and, therefore, unallowable for the following reasons:

- The district did not explain or support why average time allowances claimed by district staff (43.1 minutes per student for FY 1998-99 through FY 2005-06, 14.5 minutes per student for FY 2006-07, and 31.3 minutes per student for FY 2007-08) were significantly greater than the time allowances based on the results of our inquiries and observations.
- The time allowances recorded by district staff for FY 2006-07 were based on estimated time from two Gilroy's Business Office employees. Gilroy's Admissions and Records Office employees did not complete any survey forms for FY 2006-07. However, the district indicated that most of the FY 2006-07 collections occurred at Gilroy's Admissions and Records Office.
- Based on the minutes recorded by the two employees surveyed at Gilroy's Business Office, the estimated time to perform activities (1) through (4) did not change from FY 1998-99 through FY 2006-07.
- The district had an automated telephone registration process, in operation since 2003, and an automated online registration and payment system, in operation since May 2006, that were used for the payment of enrollment fees without the assistance of district employees. However, the district did not exclude students who paid online when determining reimbursable costs.
- The surveys were not developed with sufficient instructions to clarify reimbursable activities.
- The district did not independently verify the uniform time allowances with physical observation and inquiries to ensure that time allowances applied to students were accurate and reasonable.
- The district did not show that the methodology it used in developing time allowances produced a result that was representative of employees' time spent performing the reimbursable activities.

Government Code section 17561 (d)(2)(B) states that “The Controller may reduce any claim that the Controller determines is excessive or unreasonable.” Based on our analysis, we believe that salaries and benefits claimed using time allowances for activities (1) through (4) were excessive and unreasonable.

The parameters and guidelines (section IV-Reimbursable Activities) state:

. . .actual costs must be traceable and supported by source documents that show the validity of such costs, when they were incurred, and their relationship to the reimbursable activities. A source document is a document created at or near the time the actual cost was incurred for the activity in question.

The following table summarizes the unsupported ongoing salary and benefit costs related to calculating and collecting enrollment fees for activities (1) through (4):

Fiscal Year	Reference Student Accounts	Calculating Fees	Answering Student Questions	Updating Records	Total
1998-99	\$ (20,176)	\$ (58,793)	\$ (50,036)	\$ (34,584)	\$ (163,589)
1999-2000	(21,838)	(63,398)	(36,687)	(55,939)	(177,862)
2000-01	(29,434)	(88,324)	(49,449)	(77,933)	(245,140)
2001-02	(27,357)	(85,077)	(42,676)	(60,437)	(215,547)
2002-03	(32,512)	(86,700)	(45,517)	(68,726)	(233,455)
2003-04	(30,411)	(77,901)	(42,575)	(61,751)	(212,638)
2004-05	(35,469)	(88,788)	(49,657)	(70,381)	(244,295)
2005-06	(36,357)	(93,743)	(50,899)	(74,309)	(255,308)
2006-07	(31,302)	(42,054)	(22,358)	(17,522)	(113,236)
2007-08	(78,516)	(48,102)	(80,969)	(28,601)	(236,188)
Total	\$ (343,372)	\$ (732,880)	\$ (470,823)	\$ (550,183)	\$ (2,097,258)

Recommendation

We recommend that the district:

- Maintain records that document actual time spent on mandate-related activities;
- Ensure the validity of any time studies used in determining reimbursable cost;
- Maintain documentation that identifies the number of students subject to reimbursements pursuant to Education Code section 76300; and
- Adjust for students that pay their enrollment fee through an automated system (rather than in person) when calculating enrollment fee collection costs.

We further recommend that any surveys used in developing uniform time allowances are:

- Developed with sufficient instructions to clarify reimbursable activities;
- Independently verified with physical observation and inquiries to ensure that time allowances applied to students are accurate and reasonable; and
- Projected in a manner to produce a result that is representative of employees performing the reimbursable activities.

District's Response

The draft audit report eliminates \$2,110,816 of the staff time reported from the time survey of ongoing activities for enrollment fee collection, after the adjustments made in Finding 1 regarding workload multipliers.

The draft audit report refers to the automated telephone registration process beginning in FY 2003-04 and the OLGA system beginning May 2006 which reduced staff participation in the collection of the enrollment fee compared to the over-the-counter method that prevailed during the first five fiscal years that are the subject of the audit. The draft audit report concludes that the students should have been excluded from the claim. While the staff labor involved in the automated systems is different and probably less, it is not a basis for excluding these enrollments from reimbursement based on the survey. While District staff could give an informed opinion on the number of students utilizing the automated systems, and the auditor solicited these opinions on several occasions, the District did not maintain this information in the usual course of business and it is not required by the parameters and guidelines. Further, I am told that for a claimant to make cost assumptions based on staff opinions has been unacceptable on previous Controller audits on other programs, so it was not ventured here on this subject matter by the District and so stated in its e-mail to the auditor on April 1, 2010.

However, the subsequent establishment of automated systems is not a basis for disallowing costs for the first five years audited. Notwithstanding, the audit report disallows the remaining enrollment process costs for all fiscal years based on a anecdotal evidence obtained after the exit conference. The draft audit report cites interviews with two Student Records Technicians at the Gilroy campus on March 29, 2010, who appears to have stated at the interview that they must have misinterpreted the scope of activities included in the survey tool when they originally submitted their response. The auditor observed the enrollment process for three hours at Gilroy on January 26, and 27, 2011, observing the fee collection process for seven students, excluding students that were adding or dropping courses, and concluded that the reimbursable activities averaged three and one-half minutes. The auditor also interviewed an Accounting Assistant and Accountant at the Gilroy business office who described the pre- and post automated procedures, as well as Program Specialists at the Morgan Hill campus who provided new responses to the survey at the auditor's request. Based on these interviews and new responses, the auditor concluded that the original survey results overstated the reimbursable activity time. If a claimant were to base their annual claims on similar directed

interviews of a few staff and observation of seven transactions out of more than 10,000 such transactions per year, the information obtained would not be considered by the Controller as representative. It is not.

The draft audit report states the following reasons for rejecting the original District survey findings:

1. *The District did not explain or support why the average time allowances reported in the surveys were significantly greater than the results of the auditor's interviews and observations.* The District response was stated in the April 1, 2010, e-mail and discussed at the exit conference. The survey forms used for the annual claims were distributed to all staff involved in the process who responded based on their understanding of the language used in the survey forms which is almost directly copied from the parameters and guidelines. The District did not participate in the interviews conducted by the auditor, so it does not know what language was used to elicit or clarify the responses obtained there, nor why these responses are specifically different.
2. *Gilroy Business Office staff did not complete survey forms for FY 2006-07.* The annual claims utilized previous information from similar job classifications across the district since the annual claim is based on district costs, not specific college costs.
3. *The estimated time reported did not change from FY 1998-99 through FY 2006-07.* At the time of the filing of the initial claims, July 2006, staff reported the average time for a regular enrollment fee collection transaction dating back to FY 1998-99. No changes were made later for the automated system transactions since the staff generally responding (e.g., Student Records Technicians) were not performing that function.
4. *The District did not exclude from the enrollment multipliers students who paid on line.* As stated before, those transactions are also reimbursable. The survey, by its nature as a survey, estimated the average time of routine transactions and did not address this issue. There are no multipliers or survey results for these automated transactions. The purpose of surveys of this type is to provide approximate results for nearly uniform repetitive activities, and do not accommodate exceptional transactions.
5. *The surveys were not developed with sufficient instructions to clarify the reimbursable activities.* SixTen and Associates stated at the exit conference that these forms use the language of the parameters and guidelines based on previous Controller audit experience where auditors have considered that modifying parameters and guidelines language, as well as verbally "explaining" the language, is directing a response, as the auditor may have experienced during his interviews. The audit report suggests the need for more specific activity descriptions and second-person observation of the time for each activity. There is a concern that more specific activity descriptions may stray from the scope of the parameters and guidelines language. This presents the potential problem of claiming activities outside of the scope of the parameters and guidelines, especially when each district that utilizes a survey process will have to establish its own activity descriptions, absent a statewide survey instrument. Further, the Controller has no standards for time surveys of this nature to assist the claimants in filtering the meaning of the parameters and guidelines.

6. *The District did not independently verify the uniform time allowances with physical observation and inquiries to assure the responses were accurate and reasonable.* As stated before, survey results are not intended to be accurate, but rather representative. There is no retroactive observation possible. Surveys of these types are based on the collective independent evaluation by persons who do not actually perform the work. The auditor's perception of unreasonable results is based on a few interviews and one short observation conducted by the auditor, none of which are relevant to the survey *method* used, but only the survey results. Is the auditor's work "independent" verification? It is clear that the verification process conducted by the auditor was neither sufficient in scope or supported by a written survey instrument or method that can be properly evaluated by a third party.
7. *The District did not show the survey results were representative of the employee time spent performing the reimbursable activities.* This is the ultimate bias that pervades the entire audit process. The survey was not designed to accomplish the findings desired by the Controller. The survey is representative of the activities stated in the parameters and guidelines in that the persons performing the tasks responded to their understanding of the questions posed by the parameters and guidelines language. Understanding the language of the parameters and guidelines, plain meaning or otherwise, is a challenge for anyone who prepares annual claims for any mandate program. It is not a unique issue here. The auditor's interview findings and the de minimus observation period are just another interpretation.

The draft audit report concludes that the survey results are unreasonable and excessive. The Controller has not provided the claimants with any professional standards for these types of surveys that attempt to represent costs incurred for numerous retroactive years, even though the Commission has been issuing retroactive parameters and guidelines for 27 years. In this audit, the auditor has not provided any empirical findings that contradict the responses of most of the staff who performed the reimbursable activities. However, the District understands that it will be up to the Commission to determine if the auditor's findings are sufficient to sustain the adjustments made.

SCO's Comment

We reduced the adjustment reported in the draft report by \$13,558, from \$2,110,816 to \$2,097,258, related to a correction of the FY 2001-02 enrollment count of students paying an enrollment fee, as noted in our comment to Finding 1.

The district states that the draft audit report adjustments reduced personnel costs because the district did not identify the number of students who enrolled through automated systems. The district also states that the staff labor involved in the automated systems is different and probably less than the labor involved in over-the-counter enrollment processes. However, the district did not provide documentation supporting the number of automated enrollments versus manual enrollments or the significance of students paying online. Further, the automation issue is not the sole reason for the audit adjustment.

The district believes that the information collected by the SCO through interviews and observations is inadequate. However, the results of the SCO's observations correlated to the results of the SCO's interviews. The district's survey forms paraphrased the parameters and guidelines and contained no further explanation for district staff to consider. Also, the district gave equal weight to all staff responses, although staff performed activities at varying levels. The interviews and observations provide additional indications of work performed by district staff relative to the mandate.

In items 1 through 7 of its response, the district makes various points:

1. The district states that it did not participate in the SCO interviews, does not know what language was used to elicit responses, and does not know why the responses were different than responses on the survey forms. Actually, the district did participate in the interviews and observations, through the Assistant to the Vice President of Administrative Services, who was present at the interviews.
2. With reference to our comment that Gilroy Business Office staff did not complete survey forms for FY 2006-07, the district states that the annual claims utilized previous information from similar job classifications across the district because the annual claims are based on district costs, not specific college costs. However, as noted previously, the estimated time allowances varied significantly by campus sites and classification. Further, during the audit, the district indicated that most of the FY 2006-07 collections occurred at Gilroy's Admissions and Records Office; nevertheless, the survey only included responses from two employees who both worked in Gilroy's Business Office.
3. With reference to our comment that the estimated time reported by Gilroy's Business Office did not change from FY 1998-99 through FY 2006-07, the district explains that staff reported average time for a regular enrollment fee collection transaction. However, the estimated annual time allowances by campus sites varied significantly. Further, during the audit period, the district automated its system, which should have reduced the time to process enrollment fee collection activities.
4. The district stated that it did not exclude from the enrollment multipliers students who paid online as those transactions are reimbursable. It further stated that the survey estimates the average time of routine transactions and, therefore, did not address this issue. The district's response supports the SCO's position that the district did not track staff time related to online transactions. Applying time allowances to automated transactions overstates reimbursable costs as the district would not have incurred the same level of efforts to process those transactions. The district did not provide documentation supporting time spent on automated transactions.

5. The district disagrees that its surveys were not developed with sufficient instructions to clarify the reimbursable activities. The district is concerned that more specific activity descriptions in the survey forms could stray from the scope of the parameters and guidelines language. However, during the audit process we discovered that staff misunderstood the reimbursable components of the parameters and guidelines. For example, staff members were not aware that the time they recorded on the survey forms should have excluded registration-related activities such as adding and deleting classes. Consequently, the time reported by staff on the survey forms was overstated.
6. The district states that its survey results are not intended to be accurate, but rather representative of reimbursable time spent on the mandate. Therefore, it did not independently verify the uniform time allowances with physical observations and inquiries. During the audit, the SCO's observations and interviews, in conjunction with the district's surveys, provided a more complete picture of actual costs than the surveys alone.
7. The district reiterates that its survey results are meant to be representative of the activities stated in the parameters and guidelines. The SCO's position is that additional information obtained during the course of the audit did not support the results of the district's surveys.

**FINDING 3—
Unallowable contract
services**

The district claimed \$91,273 in contract services through Sungard to provide district training on its new automated Banner System for FY 2007-08. Of that amount, \$73,011 is unallowable.

Invoices provided by the district for claimed training costs did not relate entirely to procedures for the collecting of enrollment fees and for determining which students are eligible for waiver of the enrollment fees allowed by the mandate. We reviewed the individual invoices and made an allocation of eligible costs based on information the district provided and discussion with district staff. We asked the district to review and comment on our allocation. However, the district did not respond.

The parameters and guidelines for the program state that only actual costs may be claimed. Actual costs are those costs incurred to implement the mandated activities.

The parameters and guidelines further state that if training encompasses subjects broader than the reimbursable activities, only the pro-rata portion can be claimed.

The following table summarizes unallowable contract services related to training:

	<u>Training</u>
Audit adjustment, FY 2007-08	<u>\$ (73,011)</u>

Recommendation

We recommend that the district claim only those training activities that are actually incurred to implement the mandate.

District's Response

The draft audit report disallows \$73,011 of a total \$91,273 in contract payments to Sungard to provide training on the new Banner system beginning FY 2007-08 as the pro-rata portion not relevant to the implementation of this mandate. The District has no additional documentation for this issue at this time.

SCO's Comment

The finding and recommendation remain unchanged.

The district states that it has no additional documentation to support the claimed costs.

The SCO used district-provided invoices from Sungard to determine the allowable costs. The invoices described various training activities provided by Sungard. Some of these activities related to reimbursable components of the mandate, while others did not. We identified various training components that did appear to be relevant to the mandate and discussed this information with district staff. As noted above, the district did not respond to this adjustment during the audit

**FINDING 4—
Overstated indirect
costs**

The district claimed \$1,002,702 in unallowable indirect costs for the audit period. In each year under audit, the district overstated its indirect cost rate.

The district prepared its Indirect Cost Rate Proposal (ICRP) using the State Controller's Office (SCO) FAM-29C methodology. However, the district did not correctly compute the FAM-29C rates. We recalculated allowable indirect cost rates based on the FAM-29C methodology that the parameters and guidelines and the SCO claiming instructions allow.

We calculated the allowable indirect cost rates each year by using the information contained in the California Community Colleges Annual Financial and Budget Report Expenditures by Activity (CCFS-311). Our calculations revealed that the district overstated its rates for the entire audit period.

The following table summarizes the overstated indirect cost rates:

Fiscal Year	Allowable Indirect Cost Rate	Claimed Indirect Cost Rate	Overstated Rate
1998-99	18.52%	35.68%	(17.16)%
1999-2000	14.10%	34.23%	(20.13)%
2000-01	15.62%	36.55%	(20.93)%
2001-02	16.34%	35.86%	(19.52)%
2002-03	14.50%	32.88%	(18.38)%
2003-04	14.75%	36.29%	(21.54)%
2004-05	31.63%	33.96%	(2.33)%
2005-06	33.66%	36.92%	(3.26)%
2006-07	33.67%	36.45%	(2.78)%
2007-08	35.09%	39.55%	(4.46)%

The following table summarizes the unallowable indirect costs:

Fiscal Year	Allowable Direct Costs	Allowable Indirect Cost Rate	Allowable Indirect Costs	Claimed Indirect Costs	Audit Adjustment
1998-99	\$ 8,503	18.52%	\$ 1,575	\$ (76,483)	\$ (74,908)
1999-2000	11,880	14.10%	1,675	(85,778)	(84,103)
2000-01	12,445	15.62%	1,944	(120,380)	(118,436)
2001-02	14,379	16.34%	2,350	(112,394)	(110,044)
2002-03	21,644	14.50%	3,138	(109,289)	(106,151)
2003-04	22,891	14.75%	3,376	(118,822)	(115,446)
2004-05	19,516	31.63%	6,173	(117,332)	(111,159)
2005-06	21,458	33.66%	7,223	(131,795)	(124,572)
2006-07	67,546	33.67%	22,743	(71,138)	(48,395)
2007-08	109,817	35.09%	38,535	(148,023)	(109,488)
Total	<u>\$ 310,079</u>		<u>\$ 88,732</u>	<u>\$ (1,091,434)</u>	<u>\$ (1,002,702)</u>

The parameters and guidelines state:

Community colleges have the option of using: (1) a federally approved rate, utilizing the cost accounting principles from the Office of Management and Budget Circular A-21, Cost Principles of Educational Institutions; (2) the rate calculated on State Controller's Form FAM-29C; or (3) a 7% indirect cost rate.

The district did not have a federally approved rate for the audit period.

Recommendation

We recommend that the district claim indirect costs based on an indirect cost rate computed in accordance with the SCO's claiming instructions.

District's Response

The draft audit report concludes that the District overstated indirect costs by \$1,007,480 because the District "did not correctly compute the FAM-29C rates." The audit report states that the rates were recalculated based on the FAM-29C methodology allowed by the parameters and guidelines and the Controller's claiming instructions. The audit report does not state that the District's calculations are unreasonable, just that they aren't exactly the same as the Controller's calculations using the same method. There are no regulations or pertinent generally accepted methods for the calculation, so it is a matter of professional judgment. The Controller's claiming instructions are unenforceable because they have not been adopted as regulations under the Administrative Procedure Act, so the only definitive source is the parameters and guidelines.

The parameters and guidelines provide a definition of indirect costs, including: "(b) the cost of central governmental services distributed through the central service cost allocation plan and not otherwise treated as direct costs." Both the District's annual claims and the auditor used the CCFS-311 as the source document for the calculation using the FAM-29C method designed by the Controller. The CCFS-311 is the state-mandated report for community colleges. The minor differences (2.33% to 4.46%) between the claimed amounts and audit results, beginning FY 2004-05, derived from the choice of how some of the costs are categorized as either direct or indirect for purposes of the calculation. These minor differences are within the realm of a reasonable interpretation of the nature (either direct or indirect) of the costs reported for each CCFS-311 account and the audit findings have not indicated otherwise.

The large differences (17.16% to 21.54%) prior to FY 2004-05, are the result of the District including capital costs and the Controller excluding capital costs from the calculation. The annual claims used the "capital costs" reported in the CCFS-311 until FY 2006-07, and thereafter used annual CPA-audited financial statement depreciation expense in lieu of capital costs. The audit excluded the capital costs every year until FY 2004-05 when depreciation was included by change in Controller policy. The Controller has not stated a legal or factual reason to previously exclude or now include capital or depreciation costs. The burden of proof is on the Controller staff to prove that the product of the District's calculation is unreasonable, not to recalculate the rate according to their unenforceable policy preferences. However, I am told that this is a statewide audit issue included in dozens of other incorrect reduction claims already filed that will have to be resolved by decision of the Commission on State Mandates.

SCO's Comment

We reduced the adjustment reported in the draft report by \$4,778, from \$1,007,480 to \$1,002,702, based on the changes to Findings 1 and 2.

As noted in the finding, the district prepared its Indirect Cost Rate Proposal using the SCO FAM-29C methodology. However, we noted errors in the district's calculations. We recalculated the indirect rates in accordance with FAM-29C instructions contained in the SCO's Community College Mandated Cost Manual.

The district states that there are no generally accepted methods for the indirect cost calculation and that SCO claiming instructions are unenforceable. The district also states that the SCO auditors improperly excluded capital costs from the indirect cost calculations prior to FY 2004-05 and improperly included them subsequent to FY 2004-05. We disagree. As the district did not have a federally approved rate and did not claim a 7% rate, it used the FAM-29C method. In using the FAM-29C method, the district is required to follow the FAM-29C instructions with regard to the treatment of capital costs.

**FINDING 5—
Overstated savings/
reimbursements**

The district overstated offsetting savings/reimbursements by \$58,318 (understated enrollment fee collection by \$74,854 and overstated enrollment fee waivers by \$16,536 for the audit period). The overstated occurred because (1) the district did not accurately report the amount received for enrollment fee collection and the amount waived for enrollment fee waivers and (2) revenues received exceeded allowable costs.

We calculated allowable offsetting savings/reimbursements for all years under audit using instructions contained in the parameters and guidelines. Our calculations were based on enrollment fee collection and BOG fee waivers information provided by the CCCCCO. In addition, we limited offsetting savings/reimbursements by actual allowable costs incurred separately for enrollment fee collection and enrollment fee waivers costs.

The following table summarizes the understated enrollment fee collection portion of offsetting savings/reimbursements:

Fiscal Year	Allowable Costs	Enrollment Fee Collection			
		Actual Revenues	Claimed	Allowable	Audit Adjustment
1998-99	\$ 10,078	\$ 11,138	\$ 5,803	\$ 10,078	\$ (4,275)
1999-2000	591	11,114	5,448	591	4,857
2000-01	718	11,588	5,194	718	4,476
2001-02	920	11,750	5,036	920	4,116
2002-03	1,594	12,247	4,604	1,594	3,010
2003-04	2,105	17,645	13,194	2,105	11,089
2004-05	4,163	25,344	19,536	4,163	15,373
2005-06	3,037	25,513	18,570	3,037	15,533
2006-07	438	24,678	24,561	438	24,123
2007-08	49,909	22,186	18,738	22,186	(26,523)
Total	<u>\$ 73,553</u>	<u>\$ 173,203</u>	<u>\$ 120,684</u>	<u>\$ 45,830</u>	<u>\$ 74,854</u>

The following table summarizes the understated enrollment fee waivers portion of offsetting savings/reimbursements:

Fiscal Year	Allowable Costs	Enrollment Fee Waivers			
		Actual Revenues	Claimed	Allowable	Audit Adjustment
1998-99	\$ —	\$ —	\$ —	\$ —	\$ —
1999-2000	12,964	33,736	11,361	12,964	(1,603)
2000-01	13,671	30,653	12,001	13,671	(1,670)
2001-02	15,809	28,065	13,766	15,809	(2,043)
2002-03	23,188	32,363	20,492	23,188	(2,696)
2003-04	24,162	43,868	21,318	24,162	(2,844)
2004-05	21,526	61,554	16,457	21,526	(5,069)
2005-06	25,644	56,322	19,472	25,644	(6,172)
2006-07	89,851	65,170	69,473	65,170	4,303
2007-08	98,443	60,559	61,817	60,559	1,258
Total	<u>\$ 325,258</u>	<u>\$ 412,290</u>	<u>\$ 246,157</u>	<u>\$ 262,693</u>	<u>\$ (16,536)</u>

The parameters and guidelines for the program require claimants to report the following offsetting savings/reimbursements:

- Enrollment Fee Collection Program funds: 2% of the revenue from enrollment fees pursuant to Education Code section 76000, subdivision (c); and
- Enrollment Fee Waiver Program funds: Allocation to community colleges by the Community College Board of Governors from funds in the annual budget act pursuant to Government Code section 76300, subdivisions (g) and (h) as follows:
 - For July 1, 1999, to July 4, 2000, 2% of the fees waived and 7% of the fees waivers.
 - Beginning July 5, 2000, 2% of the fees waived and \$0.91 per credit unit waived.

Furthermore, the parameters and guidelines state:

Any offsetting savings the claimant experiences in the same program as a result of the same statutes or executive orders found to contain the mandate shall be deducted from the costs claimed. In addition, reimbursement for this mandate from any source, including but not limited to, services fees collected, federal funds, and other state funds, shall be identified and deducted from this claim.

Recommendation

We recommend that the district report all enrollment fee collection and waivers offsetting reimbursements on its mandated cost claims.

District's Response

The draft audit report states that the District understated offsetting savings and reimbursements by \$218,652. The major source of difference for most of the fiscal years in the reported and audited amount results from the District's use of the P-2 apportionment information rather than the calculation using the percentages or per-unit amounts.

The offsetting revenues identified in the parameters and guidelines (Part VII) are of three types: the enrollment fee collection 2% administrative offset for all fiscal years, the enrollment fee waiver 2% BFAP allocation beginning FY 2000-01, and the \$.91 per unit waived BFAP-SFAA allocation beginning FY 2000-01 (7% for FY 1999-00). The "Offsetting Revenue" schedule provided to the District on December 16, 2010, states that it is based on information obtained by the auditor from the Chancellor's Office for the District for each of the three types of revenue sources. However, this type of third-party information was, and may not be, generally available at the time the annual claims are prepared. The District and other claimants, at the time the annual claims area prepared, must calculate the amounts based on contemporaneous enrollment information and the number of units waived, which would be a continuing source of minor differences.

The District concurs with the auditor's recommendation that claimants should report the revenue sources identified in the parameters and guidelines as an offset to the program costs. However, the revenue offsets should only be offset to the *relevant* mandated activity costs, rather than to the total (combined enrollment fee collection and enrollment fee waiver) program cost. The following schedule compares the audited allowed costs to the audited revenue offset amounts.

Audited Total Program Costs and Related State Revenues

<u>Fiscal Year</u>	<u>Audited Costs</u>	<u>Audited Offsetting Revenues Applied</u>		
		<u>EFC</u>	<u>EFW</u>	<u>Totals</u>
1998-99	\$10,078	\$11,138	\$0	\$11,138
1999-00	\$13,555	\$11,114	\$33,736	\$44,850
2000-01	\$14,389	\$11,588	\$30,653	\$42,241
2001-02	\$16,729	\$11,750	\$28,065	\$39,815
2002-03	\$24,782	\$12,247	\$32,363	\$44,610
2003-04	\$26,267	\$17,645	\$43,868	\$61,513
2004-05	\$25,689	\$25,344	\$61,554	\$86,898
2005-06	\$28,174	\$25,513	\$56,322	\$81,835
2006-07	\$76,624	\$24,678	\$65,170	\$89,848
2007-08	<u>\$144,911</u>	<u>\$22,186</u>	<u>\$60,559</u>	<u>\$82,745</u>
Totals	\$381,198*	\$173,203	\$412,290	\$585,493

*The audit report (p.7) states this total as \$379,990

The revenue sources are for specific purposes. The EFC 2% offset does not apply to EFW program costs. The EFW 2% and \$.91 per waived unit do not apply to EFC programs costs.

The audited report does not make the distinction and in effect applies the revenues indiscriminately to all allowed costs because these costs are combined amounts. In addition, the revenues are being applied to types of activities unrelated to the purpose of the revenues. For example, in FY 2007-08 the audit allows \$18,262 (\$91,273 - \$73,011) in contract payments for training programs. The training costs are within scope of the reimbursable activities but are not a stated purpose for either the EFC or EFW funding. The District requests that the revenue offsets be properly matched and limited to the relevant reimbursable program activities as a matter of the proper matching of program revenues to program costs.

SCO's Comment

We concur with the district's comment that enrollment fee collection and waivers revenues should only be offset against the related collection and waivers costs rather than total annual program costs. Consequently, we reduced offsetting savings/reimbursements for the audit period by \$276,970. The enrollment fee collection portion changed by \$127,373 (from \$173,202 to \$45,830) and the enrollment fee waivers portion changed by \$149,597 (from \$412,290 to \$262,693).

OTHER ISSUES

The district's response included other comments related to fraud risk assessment and management representation letter; the district also made a public records request. The district responses and SCO's comments are presented below.

**Fraud Risk
Assessment**District's Response

The draft audit report (page 2) states that the auditor was "unable to assess the fraud risk because the district, based on its consultant's advice, did not respond to our inquiries regarding fraud assessment." The District determined that providing written responses to the Controller's boilerplate fraud assessment questionnaire is outside of the scope of a mandated cost audit and could be construed as a waiver of future appeal rights. The District did respond verbally to these questions. The District objects to the Controller's policy or presumption that its written questionnaire, as presently constituted, is the only method of assessing fraud risk in district financial operations and the presumption that such a global assessment is somehow relevant to a mandate cost accounting audit. Mandated cost audits are not program compliance or annual financial statement audits.

SCO's Comment

The district's mandate consultant advised us at the entrance conference that the district would not respond to the fraud section of the internal control questionnaire. Consequently, we did not ask the district verbal fraud risk assessment questions. We attempted to assess fraud risk to comply with generally accepted government auditing standards.

**Management
Representation
Letter**District's Response

The District will not be providing the requested management representation letter since it could be construed as a waiver of future appeal rights.

SCO's Comment

We asked the district's representative to submit a written representation letter regarding the district's accounting procedures, financial records, and mandated cost claiming procedures as recommended by generally accepted government auditing standards. Responding to the SCO's management representation letter request does not waive the district's future appeal rights.

**Public Records
Request**District's Response

The District requests that the Controller provide the District any and all written instructions, memoranda, or other writings in effect and applicable during the claiming periods to the findings.

Government Code Section 6253, subdivision (c), requires the state agency that is the subject of the request, within ten days from receipt of a request for a copy of records, to determine whether the request, in whole or in part, seeks copies of disclosable public records in possession of the agency and promptly notify the requesting party of that determination and the reasons therefore. Also, as required, when so notifying the District, the agency must state the estimated date and time when the records will be made available.

SCO's Comment

The SCO will respond to the public records request in a separate letter by April 22, 2011.

**Attachment—
District's Response to
Draft Audit Report**

GAVILAN COLLEGE

5055 Santa Teresa Blvd., Gilroy, CA 95020

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408-848-4800

Steven M. Kinsella, DBA, CPA, SuperIntendent/President

March 24, 2011

CERTIFIED MAIL - RETURN RECEIPT REQUESTED

Mr. Jim L. Spano, Chief
Mandated Costs Audits Bureau
Division of Audits
California State Controller
P.O. Box 942850
Sacramento, CA 94250-5874

Re: Enrollment Fee Collection and Waivers
FY 1998-99 through 2007-08
Gavilan Community College District

Dear Mr. Spano:

This letter is the response of the Gavilan Community College District to the draft audit report dated March 11, 2011, received by e-mail on March 18, 2011, for the above referenced program and fiscal years transmitted by the letter from Jeffrey V. Brownfield, Chief, Division of Audits, State Controller's Office.

There will be an incorrect reduction claim. The magnitude and arbitrariness of some the findings require it. The incorrect reduction claim will respond more fully to the new findings of the draft audit report (released last week, fifteen months after the exit conference and one month before the final audit report must be released due to the expiration of the two-year period allowed for completing an audit) as well as the final audit report.

In several places the audit report asserts that the District did not respond to interim or preliminary findings. After the exit conference of December 10, 2009, the auditor solicited and obtained current period or post-facto representations from staff regarding the scope of the program duties and other program costs. After several instances of these contacts by the auditor, I determined that this process had to be organized and conducted in a manner that would focus these activities and end the circuitous questioning of District program staff. I had Keith Petersen, SixTen and Associates, notify you by e-mail on April 1, 2010, that further contact on the audit should be directed to him, a request that was not honored. In that e-mail, Mr. Petersen addressed several of the issues which the audit report states were not responded to by the District. Ultimately, Mr. Petersen requested that you proceed and issue the draft audit report. That request was made months ago when the concept of *draft* findings would have had some utility to the process, which it does not at this late date.



Board of Trustees: Tom Breen
Walt Glines

Kent Child
Tony Ruiz
Aaron Keller, Student Trustee

Mark Dover
Laura A. Perry, Esq.

Mike Davenport

Finding 1 - Overstated salaries and benefits

The draft audit report states that the District claimed unallowable salaries and benefits in the amount of \$652,764. This amount consists of \$119,991 of "unsupported costs" and \$532,773 for "errors applying time allowances."

1. Policies and Procedures and Training

A total of \$116,550 was disallowed for staff time claimed for policies and procedures and staff training. The draft audit report disallowed most of the staff time reported for four reasons, all of which are characterized there as "unsupported costs." None of the staff time was disallowed as unreasonable.

The draft audit report states variously that the District did not provide "support" for claimed costs, or provided "no documentation." The general audit standard applied was contemporaneous documentation of time spent or corroborating evidence of activities performed. It should be remembered that the parameters and guidelines were adopted January 26, 2006, and the first claiming instructions for the initial fiscal years were released thereafter. Claimants had no actual notice of approved reimbursement for this program until that time. It seems unreasonable to require contemporaneous documentation of daily staff time for the retroactive initial fiscal years. While some historic staff time can be reconstructed from calendars and desk diaries, other staff time cannot and must be reported as a good-faith estimate where the desired information is not maintained in the regular course of business. While the District agrees with the audit report recommendation that claimants maintain records that document actual time spent on mandate-related activities, it would be a more realistic standard only for fiscal years several years after the period of the initial fiscal year claims.

Where the documentation was apparently sufficient, the auditor made qualitative judgments regarding the scope of activities as to whether they were related to the mandate program, for example, as in the Banner mock registration process. The District does not agree that those sessions and other training events are qualitatively divisible as determined by the auditor. Since this is a basic difference of opinion, it has to be resolved by the incorrect reduction claim process.

The audit report essentially disallows staff time for policies and procedures after the first instances of reported costs for these activities in FY 1998-99 and FY 1999-00 as a duplication of one-time costs. The audit report cites the Commission Final Staff Analysis for the parameters and guidelines for the premise, not stated in the parameters and guidelines, that updates to policies and procedures result from changes in local policy. This is a factual assumption not supported by the audit findings, and seemingly contrary to the thirteen changes in state law listed in the audit report. The audit report makes no findings on the content of the changes made to policies and procedures to support this adjustment.

The draft audit report disallows claimed training time for employees who were claimed more than once during the ten fiscal years in the audit period. The parameters and guidelines identify the staff training activities as "one-time per employee." However, it should be considered that the content of the training would change over the span of years, thus new content would be a new one-time activity for repeat staff members. The language of Education Code Section 76300 changed frequently and the subject matter of the relevant Title 5, CCR, sections may have been updated by the Board of Governors. There are also local changes in duties and

procedures as a result of the change in the enrollment and registration process; for example, the evolving telephone and OLGA system noted in the audit report. It should also be anticipated that the name of the supervisors or managers conducting the training would appear in the claims for several years. There should be no blanket disallowance of staff time for persons whose name appears more than once without a determination of whether the subject matter of the training was duplicate of previously claimed training activities.

2. Time Allowances for Ongoing Activities

The draft audit report identifies "errors when applying time allowances" of \$530,768 in overstated ongoing enrollment fee collection activities and understated costs of \$2,005 for ongoing enrollment fee waiver activities. The District's computation of ongoing program costs is based on the average time reported from the several surveys of relevant program staff of the amount of time (usually in minutes) required to complete the twelve activity components. These average times were multiplied by workload multipliers that closely approximate the number of students who paid enrollment fees and the number of students for whom enrollment fees were waived. The total hours per activity component was multiplied by either the specific productive hourly rate of the person performing the activity, or an average hourly rate when there were several persons in similar job classifications performing the activity.

The major source of the audited variance (\$397,279) is stated in the audit report to be that the District "did not report the correct number of students related to the various cost components," and that the District "did not support the numbers it used for the multiplier." The auditor utilized enrollment waiver statistics from the Chancellor's Office MIS system, because these numbers are "maintained," are "more accurate," and because the numbers "did not vary significantly from the numbers reported on its Web site" that was the source of some of the numbers used by the District. The audit uses the MIS statistics to approximate the number of students who paid enrollment fees and the number of students for whom enrollment fees were waived. The District utilized information available from district records or the Chancellor's web site at the time the annual claims were prepared so some variances can be expected. Variances would result from the students who enrolled and paid enrollment fees, but thereafter left the district and thus these students may not appear later in the Chancellor's statistics as an enrolled student. Another source of a variance would be the time spent on unapproved waiver applications. There are more applications for waivers than waivers granted, which is not reflected by the Chancellor's statistics.

The District has no additional information at this time regarding its contemporaneous sources for the statistics used in the annual claims. The District will also await further documentation from the Controller during the incorrect reduction claim process that validates the auditor's conclusion that the Chancellor's enrollment statistics are more accurate or relevant as program activity multipliers.

Finding 2 - Unsupported Salaries and Benefits

The draft audit report eliminates \$2,110,816 of the staff time reported from the time survey of ongoing activities for enrollment fee collection, after the adjustments made in Finding 1 regarding workload multipliers.

The draft audit report refers to the automated telephone registration process beginning in FY 2003-04 and the OLGA system beginning May 2006 which reduced staff participation in the

collection of the enrollment fee compared to the over-the-counter method that prevailed during the first five fiscal years that are the subject of the audit. The draft audit report concludes that the students should have been excluded from the claim. While the staff labor involved in the automated systems is different and probably less, it is not a basis for excluding these enrollments from reimbursement based on the survey. While District staff could give an informed opinion on the number of students utilizing the automated systems, and the auditor solicited these opinions on several occasions, the District did not maintain this information in the usual course of business and it is not required by the parameters and guidelines. Further, I am told that for a claimant to make cost assumptions based on staff opinions has been unacceptable on previous Controller audits on other programs, so it was not ventured here on this subject matter by the District and so stated in its e-mail to the auditor on April 1, 2010.

However, the subsequent establishment of automated systems is not a basis for disallowing costs for the first five years audited. Notwithstanding, the audit report disallows the remaining enrollment process costs for *all* fiscal years based on anecdotal evidence obtained after the exit conference. The draft audit report cites interviews with two Student Records Technicians at the Gilroy campus on March 29, 2010, who appear to have stated at the interview that they must have misinterpreted the scope of activities included in the survey tool when they originally submitted their response. The auditor observed the enrollment process for three hours at Gilroy on January 26, and 27, 2011, observing the fee collection process for seven students, excluding students that were adding or dropping courses, and concluded that the reimbursable activities averaged three and one-half minutes. The auditor also interviewed an Accounting Assistant and Accountant at the Gilroy business office who described the pre- and post automated procedures, as well as Program Specialists at the Morgan Hill campus who provided new responses to the survey at the auditor's request. Based on these interviews and new responses, the auditor concluded that the original survey results overstated the reimbursable activity time. If a claimant were to base their annual claims on similar directed interviews of a few staff and observation of seven transactions out of more than 10,000 such transactions per year, the information obtained would not be considered by the Controller as representative. It is not.

The draft audit report states the following reasons for rejecting the original District survey findings:

1. *The District did not explain or support why the average time allowances reported in the surveys were significantly greater than the results of the auditor's interviews and observations.* This District response was stated in the April 1, 2010, e-mail and discussed at the exit conference. The survey forms used for the annual claims were distributed to all staff involved in the process who responded based on their understanding of the language used in the survey forms which is almost directly copied from the parameters and guidelines. The District did not participate in the interviews conducted by the auditor, so it does not know what language was used to elicit or clarify the responses obtained there, nor why these responses are specifically different.
2. *Gilroy Business Office staff did not complete survey forms for FY 2006-07.* The annual claims utilized previous information from similar job classifications across the district since the annual claim is based on district costs, not specific college costs.
3. *The estimated time reported did not change from FY 1998-99 through FY 2006-07.* At the time of filing the initial claims, July 2006, staff reported the average time for a regular

enrollment fee collection transaction dating back to FY 1998-99. No changes were made later for the automated system transactions since the staff generally responding (e.g., Student Records Technicians) were not performing that function.

4. *The District did not exclude from the enrollment multipliers students who paid on line.* As stated before, those transactions are also reimbursable. The survey, by its nature as a survey, estimated the average time of routine transactions and did not address this issue. There are no multipliers or survey results for these automated transactions. The purpose of surveys of this type is to provide approximate results for nearly uniform repetitive activities, and do not accommodate exceptional transactions.
5. *The surveys were not developed with sufficient instructions to clarify the reimbursable activities.* SixTen and Associates stated at the exit conference that these forms use the language of the parameters and guidelines based on previous Controller audit experience where auditors have considered that modifying parameters and guidelines language, as well as verbally "explaining" the language, is directing a response, as the auditor may have experienced during his interviews. The audit report suggests the need for more specific activity descriptions and second-person observation of the time for each activity. There is a concern that more specific activity descriptions may stray from the scope of the parameters and guidelines language. This presents the potential problem of claiming activities outside of the scope of the parameters and guidelines, especially when each district that utilizes a survey process will have to establish its own activity descriptions, absent a statewide survey instrument. Further, the Controller has no standards for time surveys of this nature to assist the claimants in filtering the meaning of the parameters and guidelines language.
6. *The District did not independently verify the uniform time allowances with physical observation and inquiries to assure the responses were accurate and reasonable.* As stated before, survey results are not intended to be accurate, but rather representative. There is no retroactive observation possible. Surveys of these types are based on the collective independent opinions of the persons performing the work and are not amenable to independent evaluation by persons who do not actually perform the work. The auditor's perception of unreasonable results is based on a few interviews and one short observation conducted by the auditor, none of which are relevant to the survey method used, but only to the survey results. Is the auditor's work "independent" verification? It is clear that the verification process conducted by the auditor was neither sufficient in scope or supported by a written survey instrument or method that can be properly evaluated by a third party.
7. *The District did not show that the survey results were representative of the employee time spent performing the reimbursable activities.* This is the ultimate bias that pervades the entire audit process. The survey was not designed to accomplish the findings desired by the Controller. The survey is representative of the activities stated in the parameters and guidelines in that the persons performing the tasks responded to their understanding of the questions posed by the parameters and guidelines language. Understanding the language of the parameters and guidelines, plain meaning or otherwise, is a challenge for anyone who prepares annual claims for any mandate program. It is not a unique issue here. The auditor's interview findings and the de minimus observation period are just another interpretation.

The draft audit report concludes that the survey results are unreasonable and excessive. The Controller has not provided the claimants with any professional standards for these types of surveys that attempt to represent costs incurred for numerous retroactive years, even though the Commission has been issuing retroactive parameters and guidelines for 27 years. In this audit, the auditor has not provided any empirical findings that contradict the responses of most of the staff who performed the reimbursable activities. However, the District understands that it will be up to the Commission to determine if the auditor's findings are sufficient to sustain the adjustments made.

Finding 3 - Unallowable contract services

The draft audit report disallows \$73,011 of a total \$91,273 in contract payments to Sungard to provide training on the new Banner system beginning FY 2007-08 as the pro-rata portion not relevant to the implementation of this mandate. The District has no additional documentation for this issue at this time.

Finding 4 - Overstated indirect costs

The draft audit report concludes that the District overstated indirect costs by \$1,007,480 because the District "did not correctly compute the FAM-29C rates." The audit report states that the rates were recalculated based on the FAM-29C methodology allowed by the parameters and guidelines and the Controller's claiming instructions. The audit report does not state that the District's calculations are unreasonable, just that they aren't exactly the same as the Controller's calculations using the same method. There are no regulations or pertinent generally accepted methods for the calculation, so it is a matter of professional judgment. The Controller's claiming instructions are unenforceable because they have not been adopted as regulations under the Administrative Procedure Act, so the only definitive source is the parameters and guidelines.

The parameters and guidelines provide a definition of indirect costs, including: "(b) the costs of central governmental services distributed through the central service cost allocation plan and not otherwise treated as direct costs." Both the District's annual claims and the auditor used the CCFS-311 as the source document for the calculation using the FAM-29C method designed by the Controller. The CCFS-311 is the state-mandated report for community colleges. The minor differences (2.33% to 4.46%) between the claimed amounts and audit results, beginning FY 2004-05, derived from the choice of how some of the costs are categorized as either direct or indirect for purposes of the calculation. These minor differences are within the realm of a reasonable interpretation of the nature (either direct or indirect) of the costs reported for each CCFS-311 account and the audit findings have not indicated otherwise.

The large differences (17.16% to 21.54%) prior to FY 2004-05, are the result of the District including capital costs and the Controller excluding capital costs from the calculation. The annual claims used the "capital costs" reported in the CCFS-311 until FY 2006-07, and thereafter used annual CPA-audited financial statement depreciation expense in lieu of capital costs. The audit excluded the capital costs every year until FY 2004-05 when depreciation was included by change in Controller policy. The Controller has not stated a legal or factual reason to previously exclude or now include capital or depreciation costs. The burden of proof is on the Controller staff to prove that the product of the District's calculation is unreasonable, not to recalculate the rate according to their unenforceable policy preferences. However, I am told

that this is a statewide audit issue included in dozens of other incorrect reduction claims already filed that will have to be resolved by decision of the Commission on State Mandates.

Finding 5 - Understated offsetting savings/reimbursement

The draft audit report states that the District understated offsetting savings and reimbursements by \$218,652. The major source of difference for most of the fiscal years in the reported and audited amount results from the District's use of the P-2 apportionment information rather than the calculation using the percentages or per-unit amounts.

The offsetting revenues identified in the parameters and guidelines (Part VII) are of three types: the enrollment fee collection 2% administrative offset for all fiscal years, the enrollment fee waiver 2% BFAP allocation beginning FY 2000-01, and the \$.91 per unit waived BFAP-SFAA allocation beginning FY 2000-01 (7% for FY 1999-00). The "Offsetting Revenue" schedule provided to the District on December 16, 2010, states that it is based on information obtained by the auditor from the Chancellor's Office for the District for each of the three types of revenue sources. However, this type of third-party information was, and may not be, generally available at the time the annual reimbursement claims are prepared. The District and other claimants, at the time the annual claims are prepared, must calculate the amounts based on contemporaneous enrollment information and the number of units waived, which would be a continuing source of minor differences.

The District concurs with the auditor's recommendation that claimants should report the revenue sources identified in the parameters and guidelines as an offset to the program costs. However, the revenue offsets should only be offset to the *relevant* mandated activity costs, rather than to the total (combined enrollment fee collection and enrollment fee waiver) program cost. The following schedule compares the audited allowed costs to the audited revenue offset amounts.

Audited Total Program Costs and Related State Revenues

<u>Fiscal Year</u>	<u>Audited Costs</u>	<u>Audited Offsetting Revenues Applied</u>		
		<u>EFC</u>	<u>EFW</u>	<u>Totals</u>
1998-99	\$10,078	\$11,138	\$ 0	\$11,138
1999-00	\$13,555	\$11,114	\$33,736	\$44,850
2000-01	\$14,389	\$11,588	\$30,653	\$42,241
2001-02	\$16,729	\$11,750	\$28,065	\$39,815
2002-03	\$24,782	\$12,247	\$32,363	\$44,610
2003-04	\$26,267	\$17,645	\$43,868	\$61,513
2004-05	\$25,689	\$25,344	\$61,554	\$86,898
2005-06	\$28,174	\$25,513	\$56,322	\$81,835
2006-07	\$76,624	\$24,678	\$65,170	\$89,848
2007-08	<u>\$144,911</u>	<u>\$22,186</u>	<u>\$60,559</u>	<u>\$82,745</u>
Totals	\$381,198*	\$173,203	\$412,290	\$585,493

*The audit report (p. 7) states this total as \$379,990

The revenue sources are for specific purposes. The EFC 2% offset does not apply to EFW program costs. The EFW 2% and \$.91 per waived unit do not apply to EFC program costs.

The audit report does not make that distinction and in effect applies the revenues indiscriminately to all allowed costs because these costs are combined amounts. In addition, the revenues are being applied to types of activities unrelated to the purpose of the revenues. For example, in FY 2007-08 the audit allows \$18,262 (\$91,273 - \$73,011) in contract payments for training programs. The training costs are within the scope of the reimbursable activities but are not a stated purpose for either the EFC or EFW funding. The District requests that the revenue offsets be properly matched and limited to the relevant reimbursable program activities as a matter of the proper matching of program revenues to program costs.

Fraud Risk Assessment

The draft audit report (page 2) states that the auditor was "unable to assess fraud risk because the district, based on its consultant's advice, did not respond to our inquiries regarding fraud assessment." The District determined that providing written responses to the Controller's boilerplate fraud assessment questionnaire is outside the scope of a mandated cost audit and could be construed as a waiver of future appeal rights. The District did respond verbally to these questions. The District objects to the Controller's policy or presumption that its written questionnaire, as presently constituted, is the only method of assessing fraud risk in district financial operations and the presumption that such a global assessment is somehow relevant to a mandate cost accounting audit. Mandated cost audits are not program compliance or annual financial statement audits.

Management Representation Letter

The District will not be providing the requested management representation letter since it could be construed as a waiver of future appeal rights.

Public Records Request

The District requests that the Controller provide the District any and all written instructions, memoranda, or other writings in effect and applicable during the claiming periods to the findings.

Government Code Section 6253, subdivision (c), requires the state agency that is the subject of the request, within ten days from receipt of a request for a copy of records, to determine whether the request, in whole or in part, seeks copies of disclosable public records in possession of the agency and promptly notify the requesting party of that determination and the reasons therefore. Also, as required, when so notifying the District, the agency must state the estimated date and time when the records will be made available.

Sincerely,



Joseph D. Keeler
Vice President of Administrative Services
Gavilan Joint Community College District

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